

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Los Angeles Council of American Youth Hostels, Inc. (LAAYH) and American Youth Hostels, Inc. (AYH) (Co-Borrowers)	Amount Requested:	Not to exceed \$2,850,000
Applicant Description:	Non-profit corporations operating a network of hostel accommodations for stays of 14 days or less for visitors during any 12 month period.	Date of Board Meeting:	February 23, 2010
		Type of Issue:	Refunding and New Issue
		Resolution Number:	10-05
Project Site:	1432-1438 2 nd Street Santa Monica, California 90401	Prepared by: Derrick Moore	
Project Description:	The Loan will be used to refund existing indebtedness evidenced by a loan agreement among LAAYH and AYH, Finova Public Finance, Inc., as the lender, and California Statewide Communities Development Authority as the issuer (2000 Note) and to finance the acquisition and installation and related development of a variety of central systems for the Borrower's hostel (together, the Project). The proceeds of the 2000 Note were used to refinance The California Urban Waterfront Area Restoration Financing Authority 1990 Series A Revenue Bonds (\$3,330,000 issue amount) (1990 Bonds). The proceeds of the 1990 Bonds were used to finance the acquisition of land, buildings and equipment, and to fund facility improvements, the costs of issuance of the 1990 Bonds and a debt service reserve fund.		
Uses of Loan Proceeds:	Loan proceeds will be used to pay costs of the Project, including costs of issuance and a reserve fund.		
Public Benefits:	The non-refunding Loan proceeds used to acquire and install heating, air conditioning and ventilation systems will allow the hostel to continue to meet national hostel organization standards and to remain open, accessible and affordable to visitors into the future. The projected savings resulting from the refunding of the 2000 Note will assist in the expansion of LAAYH mission and provide support to two smaller hostels operated by LAAYH (the San Pedro and Fullerton hostels) which periodically require operational subsidies. The savings will also allow LAAYH and AYH to continue to provide community outreach programming that foster environmental and intercultural educational opportunities.		
Financing Structure:			
Type of Issue:		Privately placed loan with City National Bank, a Qualified Institutional Buyer.	
Tax Status:		Tax-exempt 501(c)(3) loan.	
Term:		Not to exceed 15 years, subject to mandatory prepayment at 5 years with provision for renewal and interest rate adjustment by City National Bank.	
Credit Rating:		None.	
Est. Sources of Funds:		Est. Uses of Funds:	
Par amount of the Loan	\$2,850,000	Refund 2000 Note	\$2,150,000
Funds provided by Applicants	200,000	Improvements/Renovation	500,000
		Debt Service Reserve Fund	300,000
		Costs of Issuance	100,000
TOTAL SOURCES	\$3,050,000	TOTAL USES	\$3,050,000
Financing Team:			
Bond Counsel:		Kutak Rock LLP	
Investor:		City National Bank	
Placement Agent/Advisor:		Growth Capital Associates, Inc.	
Staff Recommendation:			
Staff recommends approval of Resolution 10-05 for an amount not to exceed \$2,850,000 for Los Angeles Council of American Youth Hostels, Inc. and American Youth Hostels, Inc.			

BACKGROUND AND HISTORY

History

The hostelling movement was founded in 1909 in Germany by Richard Schirrmann, a school teacher who began using vacant school buildings as overnight accommodations for student field trips. An international student “youth hostel” network was developed from this experience.

Today in the U.S., there is a network of 100 hostels hosting 1 million overnights annually. Worldwide, there are more than 4,000 hostels recording 35 million overnights in more than 60 countries.

American Youth Hostels, Inc. (AYH)

The first U.S. youth hostel was opened in Northfield, Massachusetts in 1934 and within a year, a network of more than 30 hostels was operating throughout New England as American Youth Hostel (AYH). Incorporated in New York in 1949, AYH’s mission is to increase public awareness and hostel use, as well as to provide new hostel facility standards, management training and consistent operating policies .

Los Angeles Council of American Youth Hostels, Inc. (LAAYH)

The LAAYH, also known as the Los Angeles Council Hostelling International-USA, is responsible for the development of and service to hostels in Los Angeles, Ventura, Santa Barbara, Kern, San Bernardino and north Orange counties.

The LAAYH currently operates hostels in San Pedro (60 beds) and Fullerton (20 beds) and is a joint venture partner (70%/30%) with AYH in the Santa Monica Hostel (260 beds). In 2008, the three hostels recorded over 75,000 overnights and over its 20 year existence the Santa Monica Hostel has recorded over 1.3 million overnights. The LAAYH also conducts an annual series of educational travel workshops, sponsors an annual travel grant for students, presents an annual “Spirit of Adventure Award” and conducts an educational environment youth program called “Discover Your World.”

The portion of the Santa Monica Hostel open to the public is located at 1436 2nd Street and is home to 45 dorm-like rooms containing 260 beds, accommodating single visitors and groups up to 10 people. This facility also includes laundry rooms, food vending machines, a billiard table, television and computer rooms, kitchens for individual visitors and groups, dining halls and public common areas. Meeting rooms are also made available periodically for use by community groups and nonprofit organizations. The LAAYH operates the Travel Centre, located on the hostel premises, providing products, travel services and information to budget conscious travelers of all ages. LAAYH employs 26 people to manage operations on a 24-hour basis. Under AYH rules, each visitor’s occupancy is limited to 14 days during any 12-month period.

GOVERNANCE AND MANAGEMENT

The Board of Trustees are made up of 39 elected members who serve three year terms.

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PROJECT DESCRIPTION

AYH and LAAYH (jointly and severally, the Borrower) request the financing of up to \$500,000 for additional improvements and renovation projects (described below) and the refunding of a California Statewide Communities Development Authority Series 2000-1 tax-exempt note, which has an outstanding balance of \$2,278,881 (2000 Note). The proceeds of the 2000 Note were used to refinance The California Urban Waterfront Area Restoration Financing Authority 1990 Series A Revenue Bonds (\$3,330,000 issue amount) (1990 Bonds). The proceeds of the 1990 Bonds were used to finance the acquisition of land, buildings and equipment, and to fund facility improvements, the costs of issuance of the 1990 Bonds and a debt service reserve fund.

The Borrower plans to spend approximately \$500,000 for additional improvements and renovation projects to replace the boilers and storage tank for the domestic hot water system; replace the boiler for the heating system; replace the flat roof of the primary building and the adjacent historic

Rapp Saloon; and refurbish the elevator and HVAC system. These projects are expected to be completed within 12 to 18 months after the completion of this financing transaction.

FINANCING STRUCTURE

The Borrower is requesting approval of the Loan in an amount not to exceed \$2,850,000. The proceeds of the Loan will be loaned to the Borrower pursuant to a loan agreement (Loan Agreement) among the I-Bank, City National Bank and the Borrower. The Loan obligation will have a stated term of 15 years, with a mandatory prepayment at 5 years, subject to an extension and interest rate adjustment as approved by City National Bank. City National Bank is a Qualified Institutional Buyer (QIB) as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended.

The I-Bank's principal and interest due under the Loan Agreement shall be paid solely from the revenues to be received from the Borrowers' payment of its obligations under the Loan Agreement. In no event shall the Loan be deemed to constitute a debt or liability or obligation of the State or any political subdivision thereof except the I-Bank, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a special obligation of the I-Bank payable from Loan repayments paid by the Borrower to the I-Bank.

In accordance with the I-Bank "Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities" (Policies), the I-Bank's general policy is to issue obligations bearing certain minimum ratings. The Policies provide that the Board may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the Infrastructure Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the Infrastructure Bank.
2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the Infrastructure Bank may require conditions for the resale of the Bonds after initial issuance.
3. **Minimum Denomination.** The Infrastructure Bank will require a minimum bond denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The Loan will be an obligation held only by City National Bank, and thus constitutes a private placement of the I-Bank's obligation. This structure requires the Board to waive the Policies' credit rating requirement and, unless also waived, impose certain conditions on the financing. In order to meet these requirements, the resolution presented to the Board is conditioned upon (a) the Investor providing a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a QIB and (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Loan and that it is able to bear the economic risks of such investment; and (b) provisions in the Loan Agreement that prohibit the sale of the Investor's interest in the Loan except to another QIB or an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act. The terms of the Loan Agreement, to which the Investor is a party, will reflect that there is no liability on the part of the I-Bank or the State to make any payment on the Loan other than the I-Bank's limited obligation to make payments from revenues received from the Borrower.

PUBLIC BENEFITS

The Loan proceeds will fund building infrastructure improving the health and safety conditions of visitors and workers at the Santa Monica Hostel by upgrading the existing HVAC systems, water storage and heating systems and refurbishing the public elevator and roof. These upgrades will allow the hostel to continue to meet national hostel standards and to remain open, accessible and affordable to visitors into the future.

The refunding of the 2000 Note will result in a permanent financing at a significantly lower rate. The Borrower anticipates that projected savings will also provide support to the San Pedro and Fullerton hostels since these smaller hostels operated by LAAYH require periodic operational subsidy. The savings will also allow Borrower to continue to provide community outreach programming that foster environmental and intercultural educational opportunities.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: Building permits will be required and obtained for the proposed improvements.
TEFRA	
Date of TEFRA	02/18/2010 and 02/22/2010
Publications	Santa Monica Daily Press Sacramento Bee
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The Project is in the State of California. 2. Borrower is capable of meeting its obligations incurred under the proposed Loan Agreement, and, in particular as to its loan repayment obligations which secure the Loan, based upon the Investor's commitment to make the Loan. Payments to be made by Borrower to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Loan. 3. The proposed financing is appropriate for the Project. 4. Borrower has represented that the Project is consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
However, the Loan requires an approval consistent with a waiver of rating requirements established in the Policies. The Loan meets the bases for such a waiver.	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-05 for an amount not to exceed \$2,850,000 for Los Angeles Council of American Youth Hostels, Inc. and American Youth Hostels, Inc.

APPENDIX A--Site Pictures



The front entrance to the Santa Monica Hostel.



The Dining hall at Santa Monica Hostel.



Courtyard and fountain at Santa Monica Hostel.